

Storage Marketing: Using Price Point to Estimate IT Specific Target Market Demographics

by Applied Computer Research, Inc.

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Introduction

One of the most common approaches to market segmentation for IT related products is organization size. Although adequate in some cases, organization size is a poor indicator of IT adoption and deployment. Information technology spending is not just a function of gross revenue or total employment, but rather a combination of factors including vertical market and organization culture.

For example: A \$1 billion manufacturing company will spend, on average, about \$20 million on IT. A \$1 billion financial service's organization will spend, on average, about \$90 million on IT. This illustrates the fact that a certain amount of revenue or number of employees does not have a direct correlation to the overall amount of IT adoption or deployment. For this reason, it's important to approach market segmentation exercises from an IT size perspective.

Identifying target markets for storage related products should also be based on IT specific demographic characteristics. The two most common approaches to market segmentation for storage related market identification are Price Point and basic IT size characteristics.

Market Segmentation by Price Point

The formula is very simple:

$$\text{Annualized Storage Expense} / \% \text{ of IT Budget Devoted to Storage} = \text{Target IT Budget}$$

This is to calculate the annual IT budget required to support a particular annual storage expense. From this result we can then calculate the various demographic characteristics statistically consistent with the resulting IT budget. The end goal is simply to identify which organizations can afford a solution at your target price point.

Annual Expense is the actual amount expensed each year on a potential client's IT expense budget. If the sale is small enough to be expensed in the acquisition year, then this amount is the Annual Expense. If, for example, the target price point is \$150,000, this would likely be capitalized and depreciated. Assuming a three-year accelerated depreciation schedule, the annual depreciation expense would be \$50,000, and would be the Annual Expense used in the formula.

The price point you use can either be your *Entry Level Price Point*, which is the lowest sale amount you would like to promote, or the *Target Price Point*, which may be quite a bit higher than your *Entry Level Price Point*. This decision is a function of the scope and budget for the campaign or project you intend to execute.

Percent of IT Budget Devoted to Storage is simply that. For this example we'll use a conservative estimate of 8%, based on unpublished anecdotal evidence. This is to suggest, then, that the average amount of IT expense budget annually devoted to storage is 8%. Some organizations will spend a little less, while others will spend much more.

Target IT Budget can now be calculated using our example numbers mentioned above:

$$\text{\$50,000} / .08 \% = \text{\$625,000 Annual IT Budget}$$

The annual IT budget can now be used to develop a demographic profile that specifies IT specific demographic characteristics statistically equivalent with a \$625,000 IT budget. In this case, the demographic characteristics would include organizations with 4+ IT employees or 100+ PC end users or organizations listed on the Fortune 1000 or Forbes 500 lists, and possibly organizations supporting certain types of server environments based on their size.

This is a simple approach for determining very general guidelines for market segmentation. The results should be combined with your knowledge of the industry and target customer profile, then make adjustments to the demographic profile.

Storage requirements vary from one organization to the next based on their vertical industry requirements, individual application portfolio, and data storage and retention philosophies. A nice visit with your favorite industry analyst firm is advised to verify current IT storage budget numbers, or other characteristics important to your specific focus.

Market Segmentation by IT Size

This approach simply uses a demographic profile based on IT specific size characteristics that are statistically consistent with some type of quantifiable storage requirement. For example, you may know that your ten best clients are supporting 500 or more end users. This is an easy number to target, and readily available in market databases. From this number you can also calculate statistically equivalent IT specific demographic characteristics that can be incorporated into the demographic profile to assure the most complete market coverage.

Most size characteristics, whether IT or organization specific, can be converted into their statistical equivalents with simple formulas. This is pretty basic market segmentation, and covered in a more detailed tutorial on market segmentation, *Understanding Information Technology Demographics*, which is available at www.itmarketintelligence.com.



Applied Computer Research, Inc.

www.itmarketintelligence.com

16814 N. 31st Ave., Ste 101, Phoenix, AZ 85053

P. O. Box 41730, Phoenix, AZ 85080

Phone 800-234-2227 or 602-216-9100

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